

## MEMORANDUM

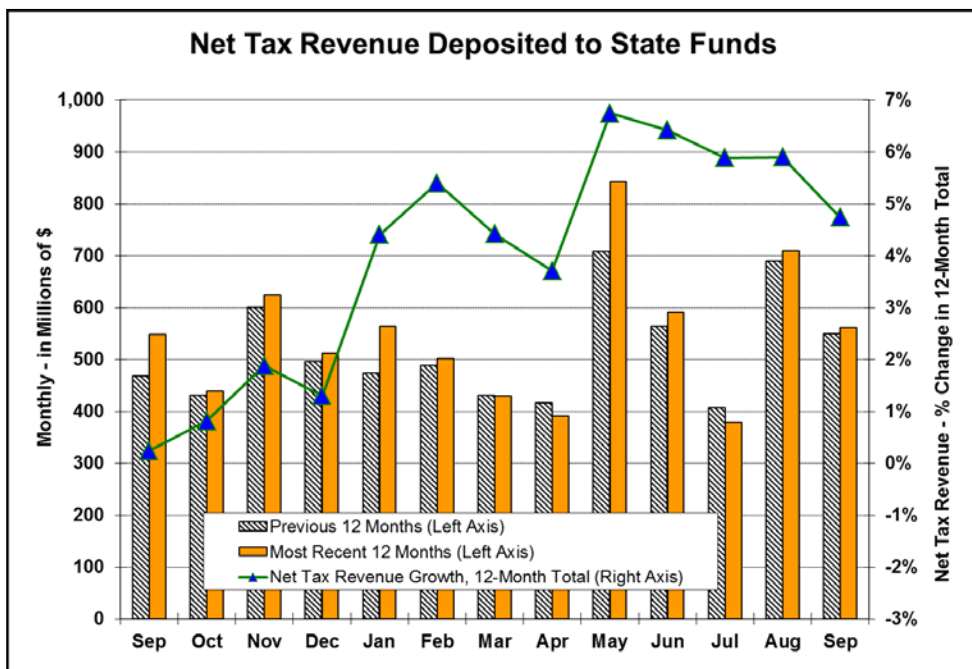
TO: Members of the Iowa Senate and  
Members of the Iowa House of Representatives

FROM: Jeff Robinson  
Shawn Snyder

DATE: October 21, 2011

### Twelve-month Total Net Tax Receipts Through September 30, 2011

The attached spreadsheet presents net tax revenue deposited to State funds for the 12-month period ending September 2011 with comparisons to the previous twelve months. September 2010 to September 2011 one-month comparisons are also presented. The source of the information is the State accounting system, including non-General Fund accounts. All accounting transactions related to taxes remitted to the State were reviewed, along with the refunds issued against those taxes.



### Overview of Current Situation

September 2011 net State tax revenue was 2.2% higher than September 2010, even though this September was negatively impacted by the late deposit of tax revenue, including the cigarette tax. This deposit timing issue will provide a boost to October revenue. The transfer of

school infrastructure revenue out of the General Fund also negatively impacted September receipts this year. At \$6.546 billion, annual revenue is up 4.7% compared to the previous 12 months, but annual revenue remains well below the pre-recession peak level of \$6.760 billion (September 2008).

### **Month of September Comparison**

September net tax receipts totaled \$561.0 million, an increase of \$12.2 million (2.2%) compared to September 2010. Major taxes and their contribution to the month's change include:

- Individual Income Tax (positive \$13.7 million, 5.7%) – Withholding payments increased a strong 5.2% for the month and there was a significant (\$6.2 million) jump in estimate payment deposits.
- Sales/Use Tax (negative \$3.8 million, - 2.2%)
  - Road Use Tax Fund use tax (fee for new registration) increased \$2.9 million in September.
  - Gross General Fund sales/use tax receipts increased \$6.3 million while regular tax refunds decreased \$1.7 million and school infrastructure transfers out increased a significant \$14.7 million. The large school infrastructure increase was part of a reconciliation to match fiscal year receipts to fiscal year transfers out.
- Corporate Income Tax (positive \$4.9 million, 18.7%) – Corporate income tax revenue, net of tax refunds, has posted strong growth in four of the past five months.
- Fuel Tax (negative \$0.6 million, - 1.5%) – A large drop in fuel tax deposits was in large part offset by a decrease in fuel tax refunds.
- Cigarette and Tobacco Taxes (negative \$5.1 million, - 22.8%) – Significant cigarette tax deposits are made every Friday. However, the large weekly deposit did not occur on Friday September 30 this year. The deposit was made October 1 and this will provide a boost to cigarette tax deposits in October.
- Gambling Tax (positive \$1.0 million, 3.5%)

### **Year-over-Year Comparison – Net Tax Revenue**

During the 12-month period ending September 2011, net revenue from all taxes deposited to State funds totaled \$6.546 billion, an increase of \$296.1 million (4.7%) compared to the prior 12 months. Major contributors to the year-over-year dollar and percentage changes include:

- Individual Income Tax (positive \$184.7 million, 6.9%) – Individual income tax continues to post strong year-over-year annual growth numbers. However, the growth rate has slowed in recent months. At \$2.875 billion, the level of net individual income tax revenue over the past 12 months is essentially the same as the level first reached in July 2008 and is 1.3% below the November 2008 peak.
- Sales/Use Tax (positive \$82.3 million, 3.8%) – While sales/use tax revenue increased 3.8% over the past year, receipts are \$41.8 million (-1.8%) below the November 2008 peak level.
- Corporate Income Tax (positive \$29.7 million, 13.2%) – Although up significantly over the most recent 12 months, corporate tax revenue, net of refunds issued, is 29.1% below the pre-recession peak.

- Fuel Tax (positive \$7.8 million, 1.8%) – According to Department of Revenue fuel sales reports, over the most recent 12-month period, Iowa taxable gasoline/ethanol gallons sold increased 3.2% while taxable diesel sales increased 4.9%. Although up year-over-year, taxable diesel sales over the most recent 12-month period are 3.9% lower than the March 2008 peak diesel sales level and total taxable fuel gallons are only 1.2% above the pre-recession (August 2007) peak for all gallons sold.
- Gambling Tax (negative \$0.4 million, - 0.1%) – According to Racing and Gaming Commission statistics, six of Iowa's 18 casino/track locations reported negative annual adjusted gross revenue (AGR) growth for the 12-month period ending September 2011. The combined AGR growth for the 18 facilities was positive 2.5% over the same 12-months last year, with the new Lyon County casino (opened June 2011) contributing significantly to the AGR growth. Adjusted gross receipts for the most recent 12 months totaled \$1.396 billion.
- Cigarette and Tobacco Tax (negative \$10.9, - 4.7%) – Approximately one-third of the \$10.9 million decrease is due to a deposit timing issue that will reverse in October. The remaining revenue decrease is due to decreased cigarette sales.
- Insurance Premium Tax (negative \$3.4 million, - 3.5%)

### **Tax Spotlight – Beer and Wine Tax**

The Iowa beer tax was first imposed in 1933 by the enactment of HF 587 (Beer and Malt Liquors Act) at a rate of \$0.04 per gallon. The current beer tax rate went into effect July 1, 1986, with enactment of HF 2484 (Government Appropriations Act of 1986). The Iowa wine tax was first imposed with the enactment of SF 395 (Sales and Local Option Tax and Wine Sales Act of 1985) at a rate of \$1.50 per gallon. The rate was increased to its current level of \$1.75 per gallon in 1986 (HF 2484). The wine gallonage tax was expanded to include sales of wine shipped directly to consumers (not for resale) with enactment of HF 2531 (FY 2011 Standing Appropriations Act of 2010).

Beer and wine sales in Iowa are taxed under Iowa Code Chapter 123. The current tax rates are:

- Beer - \$0.19 per gallon
- Wine - \$1.75 per gallon

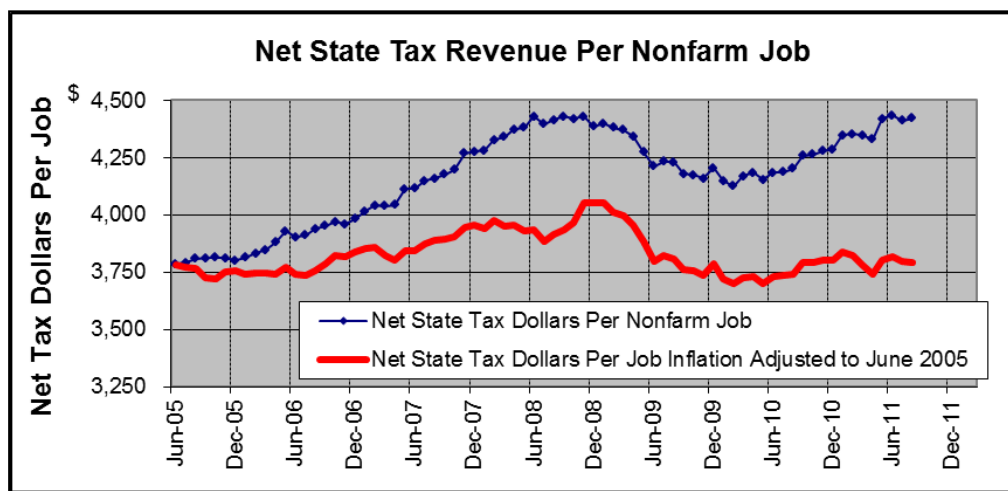
Revenue generated from the tax on beer is deposited to the State General Fund. Tax revenue generated from the sale of wine produced out-of-state is deposited to the Liquor Control Fund administered by the Iowa Alcoholic Beverage Division of the Iowa Department of Commerce. Tax revenue generated from the sale of wine produced in Iowa is deposited to the Wine Gallonage Tax Fund under control of the Department of Economic Development for promotion of native Iowa wine and beer.

The State does not have a special tax for distilled spirits. Instead, the Alcoholic Beverage Division operates a distilled spirit wholesale distribution system and the State generates fee revenue through a wholesale price mark-up system established in 1987 (HF 2484). Prior to the wholesale system, the State operated retail liquor stores. The original wholesale mark-up rate of 60.0% was reduced to 50.0% in April 1987. Revenue generated through the mark-up system

is deposited to the Liquor Control Fund as fee revenue. Excess revenue from that Fund is transferred to the State General Fund on a monthly basis.

### Tax Revenue and Employment

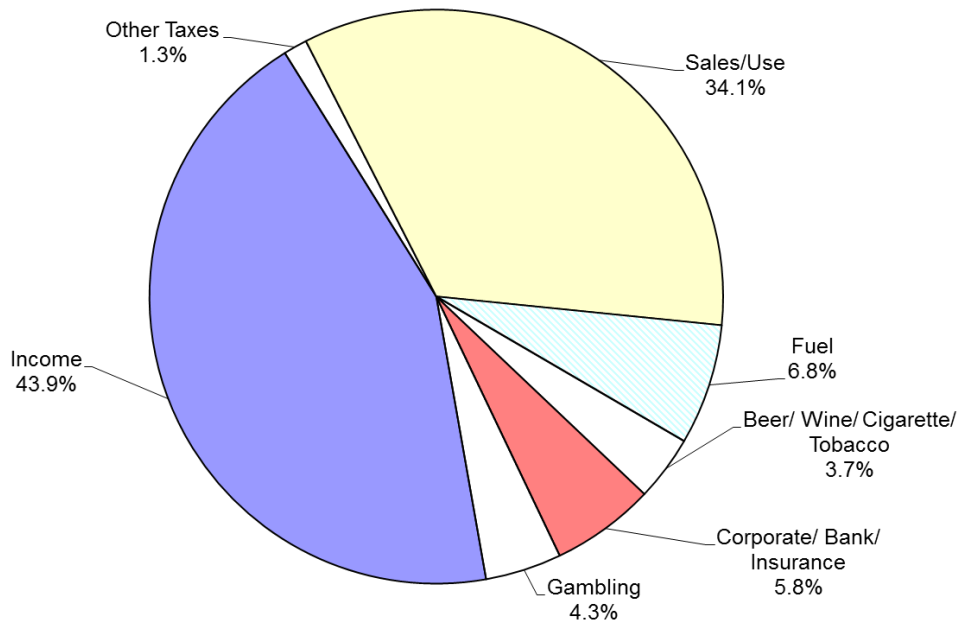
The average reading for Iowa nonfarm employment over the 12 months ending August 2011 is 1,478,000 and net State tax receipts over the same twelve months totaled \$6.534 billion, or \$4,421 per nonfarm job. This is \$636 (16.8%) higher than the per-job average for the 12 months ending July 2005. Over that same time period, inflation (CPI-U) increased 16.5%. Therefore, State tax revenue per job has slightly exceeded the rate of inflation since July 2005. The following chart provides a historical perspective of tax collections per nonfarm job (blue line) and inflation-adjusted tax collections per job (red line).



## Net State Tax Revenue - Twelve Months Ending September 2011

**Net Revenue = \$6.546 Billion**

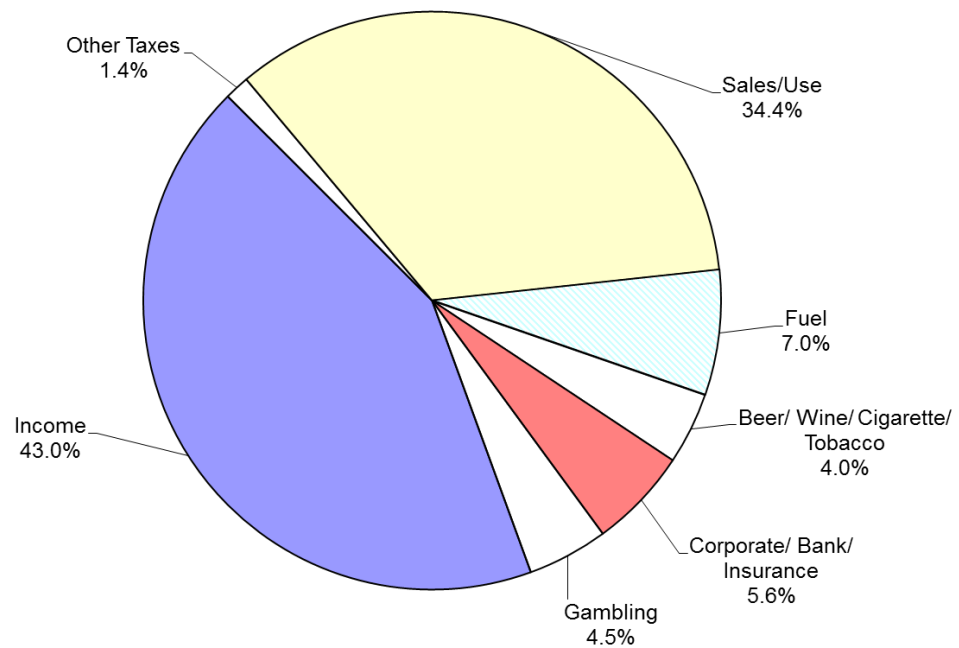
Percentages may not add to 100% due to rounding



## Net State Tax Revenue - Twelve Months Ending September 2010

**Net Revenue = \$6.250 Billion**

Percentages may not add to 100% due to rounding



## Net Tax Revenue Deposited to State Funds - Cash Basis

Dollars in millions - Columns and Rows may not add due to rounding

Net Tax by Tax Type	Previous 12-Month Period Total	Most Recent 12-Month Period Total	12-Month \$ Change	12-Month % Change	Month of September 2010	Month of September 2011	September \$ Change	September % Change
Banking	\$ 28.1	\$ 33.2	\$ 5.1	18.1%	\$ 5.9	\$ 3.6	\$ - 2.3	-39.0%
Beer & Wine	21.2	21.5	0.3	1.4%	1.9	2.0	0.1	5.3%
Cigarette & Tobacco	230.2	219.3	- 10.9	-4.7%	22.4	17.3	- 5.1	-22.8%
Corporate Income	224.9	254.6	29.7	13.2%	26.2	31.1	4.9	18.7%
Fuel	437.6	445.4	7.8	1.8%	39.0	38.4	- 0.6	-1.5%
Gambling	282.1	281.7	- 0.4	-0.1%	28.2	29.2	1.0	3.5%
Individual Income	2,690.3	2,875.0	184.7	6.9%	242.4	256.1	13.7	5.7%
Inheritance	67.3	66.2	- 1.1	-1.6%	5.5	7.1	1.6	29.1%
Insurance	97.8	94.4	- 3.4	-3.5%	0.1	0.1	0.0	0.0%
Other Taxes	6.3	8.2	1.9	30.2%	1.7	4.3	2.6	152.9%
Real Estate Transfer	13.5	13.6	0.1	0.7%	0.9	1.0	0.1	11.1%
Sales/Use	2,150.6	2,232.9	82.3	3.8%	174.6	170.8	- 3.8	-2.2%
<b>Total Net Taxes</b>	<b>\$ 6,249.9</b>	<b>\$ 6,546.0</b>	<b>\$ 296.1</b>	<b>4.7%</b>	<b>\$ 548.8</b>	<b>\$ 561.0</b>	<b>\$ 12.2</b>	<b>2.2%</b>
<b>Gross Tax &amp; Refunds</b>								
Gross Tax	\$ 7,496.5	\$ 7,823.7	\$ 327.2	4.4%	\$ 612.9	\$ 636.8	\$ 23.9	3.9%
Tax Refunds	\$ - 1,246.6	\$ - 1,277.7	\$ - 31.1	2.5%	\$ - 64.2	\$ - 75.6	\$ - 11.4	17.8%
<b>Net Tax Receipts by Fund</b>								
State General Fund (GF)	\$ 5,264.0	\$ 5,522.8	\$ 258.8	4.9%	\$ 454.9	\$ 444.1	\$ - 10.8	-2.4%
Road Use Tax Fund	\$ 698.2	\$ 734.2	\$ 36.0	5.2%	\$ 63.3	\$ 65.6	\$ 2.3	3.6%
Non-GF Gambling	\$ 268.8	\$ 213.8	\$ - 55.0	-20.5%	\$ 27.9	\$ 29.0	\$ 1.1	3.9%
Other State Funds	\$ 19.0	\$ 75.3	\$ 56.3	296.3%	\$ 2.6	\$ 22.5	\$ 19.9	765.4%
<b>Local Option Taxes *</b>	<b>\$ 778.3</b>	<b>\$ 836.2</b>	<b>\$ 57.9</b>	<b>7.4%</b>	<b>\$ 48.4</b>	<b>\$ 65.1</b>	<b>\$ 16.7</b>	<b>34.5%</b>

\* Sales, income, and hotel/motel. Distributed to local governments - not included in numbers above.

Numbers are rounded to the nearest \$0.1 million. Percentages are calculated after rounding.

## Tax Categories Used in Table

**Franchise (Bank) Tax:** Taxes on banks are deposited in the State General Fund. State credit union tax is included on this line also.

**Beer & Liquor Tax:** Taxes on beer, liquor, and wine are deposited in the State General Fund, the Liquor Control Fund, and a small amount is deposited in a Department of Economic Development fund for wine promotion.

**Cigarette & Tobacco Tax:** Prior to July 1, 2011, all cigarette and tobacco products tax revenue was deposited to the State General Fund. Beginning FY 2012, the first \$106.0 million of revenue from cigarette and tobacco taxes is deposited to the Health Care Trust Fund and the remainder is deposited to the State General Fund.

**Corporate Income Tax:** All corporate income tax is deposited in the State General Fund.

**Motor Vehicle Fuel Tax:** All motor vehicle fuel tax is deposited in one of two road use funds, with the exception of tax revenue from the sale of aviation and marine fuels.

**Gambling Tax:** Gambling tax is deposited in several State funds, including \$66.0 million per year to the State General Fund. Other funds receiving deposits of gambling tax revenue over the last 24 months include the School Infrastructure Fund, the Rebuild Iowa Infrastructure Fund, the Gambler's Assistance Fund, the County Endowment Fund, the Vision Iowa Fund, and the Revenue Bonds Debt Service Fund.

**Individual Income Tax:** Most individual income tax revenue is deposited in the State General Fund. A total of \$4.0 million per year is deposited in the Workforce Development Fund. An annual \$2.6 million diversion to the Child Daycare Fund ended in FY 2009. In addition, several economic development programs are financed by individual income tax withholding. In those instances, the employer does not remit the tax withheld from employees and it is never deposited in a State fund. That revenue is not included here.

**Inheritance Tax:** All inheritance tax is deposited in the State General Fund.

**Insurance Premium Tax:** All insurance premium tax is deposited in the State General Fund.

**Other Taxes:** Other taxes include brucellosis eradication property tax (deposited in a Department of Agriculture and Land Stewardship fund), drug stamp tax (State General Fund), utility replacement property tax (State General Fund), and car rental tax (Road Use Tax Fund). Other taxes also include a suspense account used to hold tax deposits prior to determining the correct tax type for the money and tax revenue transferred by the Department of Revenue to separate accounts to fund tax collection activities (tax gap and Department operations).

**Real Estate Transfer Tax:** Real estate transfer tax is collected by counties. Counties retain 17.25% and remit the remainder to the State. The State deposits 90.0% in the State General Fund, 5.0% in the Housing Trust Fund, and 5.0% in the Shelter Assistance Fund. The distribution of real estate transfer tax revenue changed in FY 2010, when the State General Fund percentage began a decline to 65.0% by FY 2015.

**Sales/Use Tax:** General sales/use tax is deposited in the State General Fund, while most vehicle use tax is deposited in the Road Use Tax Fund. Beginning FY 2009, the vehicle use tax is referred to as a fee in the Iowa Code. To allow continuity of data, the revenue from the fee is reflected in this document as tax revenue. Also beginning FY 2009, the School Infrastructure Local Option (SILO) sales tax was converted to a statewide 1.0% sales/use tax and the revenue from that statewide tax is transferred out of the State General Fund monthly through a refund appropriation. To allow for continuity of data, the refund transfers are subtracted from State revenue as part of the net sales/use tax calculation.

**Local Option Taxes:** Local option taxes are presented at the bottom of the table and are not included in the numbers above. Prior to FY 2009, local option taxes included the SILO tax, Local Option Sales Tax (LOST) for local government finance, Local Option Income Surcharge for schools, and hotel/motel tax. Beginning FY 2009, the SILO tax was converted to a 1.0% statewide tax and the SILO was eliminated. To allow for continuity of data, the transfers from the State General Fund as a result of the 1.0% statewide tax are included in the local option tax amount.

## Report Database

The database for this report is the State accounting system. If transactions are incorrectly coded in the system as tax revenue or tax refunds, the numbers presented here will be impacted.